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**TO: PUBLIC SERVICE COMMISSION**

**FROM: DIVISION OF PUBLIC UTILITIES**  
Constance B. White, Director  
Wes Huntsman, Manager, Telecommunications  
Bart Croxford, Utility Analyst

**Re: Joint Application of Qwest Communications Corporation and OnFiber Communications for Approval to Transfer Control of OnFiber Carrier Services, Inc. to Qwest Communications Corporation in Docket No. 06-2204-01**

**Recommendation (approve):**

The Division has reviewed the joint application of QCC and OnFiber for approval of a direct transfer of control and recommends that the Commission approve the transaction. The Division believes that the combined companies will be in a better position to compete in the telecommunications marketplace, particularly against larger companies in areas outside of Qwest's incumbent service territory.

**Issues:**

On June 1, 2006, Qwest Communications Corporation ("QCC") and OnFiber Communications, Inc. ("OnFiber.") petitioned the Commission to approve the proposed transfer of control of OnFiber Carrier Services, Inc. ("OnFiber Services," and, together with OnFiber Inc., "OnFiber"), a wholly-owned operating subsidiary of OnFiber Inc., from OnFiber Inc. to QCC in Docket No. 06-2204-01. OnFiber Inc. was granted its Certificate of Public Convenience and Necessity ("CPCN") on September 6, 2000 in Docket No. 00-2323-01.

On May 12, 2006, QCC and OnFiber Inc., together with certain of their parents and affiliates, entered into an Agreement and Plan of Merger by to which QCC will become the direct corporate parent of OnFiber Inc. and, as a result, the indirect corporate parent of OnFiber Services.

OnFiber provides customized, point-to-point, high-capacity data transport services in the highly-competitive retail and wholesale markets targeting enterprise customers and carriers. OnFiber does not serve any aspect of the residential market and does not provide switched voice services. It operates in 19 metropolitan markets across the U.S., serving a total of approximately 250 retail enterprise and wholesale carrier customers nationwide, each of which is served pursuant to a negotiated contract addressing its specific telecommunications needs.

Although OnFiber Services holds authority from the Commission to provide intrastate services in Utah, the Applicants assert that the transfer of control will have no material impact on the intrastate market in Utah because OnFiber Services provides only jurisdictionally interstate services in Utah. Although OnFiber Services is authorized to provide jurisdictionally-intrastate services, the SONET, Ethernet and Wavelength Services that OnFiber offers are used primarily for interstate applications. OnFiber Services may in the future provide jurisdictionally-intrastate services in Utah. However, given the nature of OnFiber Services' business, the company's focus will remain primarily on providing interstate data services to the enterprise market.

The primary purpose of QCC's acquisition of OnFiber is to enhance its presence in the 36 states outside of the Qwest Corporation ("QC") region. The large majority of OnFiber's business is outside of this region, and, as a result, the transaction will better position the combined company to compete with AT&T, BellSouth, Verizon/MCI and other carriers in those markets.

Qwest, through one or more affiliates, provides voice, video and data services throughout the United States. Qwest's broadband network spans more than 180,000 miles across the U.S. and globally. Qwest, through one or more affiliates, is authorized by the FCC to provide interstate and international telecommunications services and, through one or more affiliates, is authorized to provide various forms of telecommunications services in all 50 states and the District of Columbia.

In Utah, QCC is authorized to provide public telecommunications services, including local exchange services, pursuant to a CPCN issued by the Commission on August 21, 1995 in Docket No. 94-2204-01.

Pursuant to the terms of the Agreement, Qwest has agreed to acquire all of the capital stock of OnFiber Inc. in exchange for \$107 million, with Qwest having the option up until closing to substitute up to \$35 million of Qwest shares for cash. To effectuate the acquisition, Qwest Communications International Inc. ("QCII") will create a new, wholly-owned subsidiary called Quality Telecom, Inc. ("Quality Telecom"), which will become a direct, wholly-owned subsidiary of QCC. Upon consummation of the transaction, OnFiber Inc. will be merged with and into Quality Telecom, whereupon OnFiber Inc. will emerge as the surviving entity and the separate corporate existence of Quality Telecom shall cease. As a result, OnFiber Inc. will become a direct, wholly-owned subsidiary of

QCC, an affiliate of QC, and an indirect, wholly-owned subsidiary of QCII. OnFiber Services will remain a wholly-owned subsidiary of OnFiber Inc., and thus will be an indirect wholly-owned subsidiary of QCC. The boards of directors of both Qwest and OnFiber have approved or ratified the Agreement.

The Applicants claim that this transaction will serve the public interest because “they will serve as a catalyst to the expansion and enhancement of QCC’s and OnFiber’s capabilities out-of-region. At its core, the transaction marks the ongoing evolution of two competitive carriers – QCC and OnFiber – and is intended to improve their ability to compete against larger entities in the provision of interstate data services to corporations and carriers on a national scale. Absent the transaction, QCC and OnFiber would have to compete individually against these much larger carriers in these markets who have far greater resources, particularly outside of QC’s 14-state region. QCC’s acquisition of OnFiber will ensure that the two companies together can grow their positions responsibly, ensuring that customers receive innovative, high-quality services from them at market rates.”

cc: Lynn Anton Stang, Qwest Services Corp.  
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